

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

City Stores Company
Annual Report 1971



Highlights

	52 Weeks Ended	
	January 29, 1972	January 30, 1971**
OPERATIONS		
Sales	\$373,133,000	\$364,815,000
Income or (loss) before items shown below	183,000	(1,760,000)
Federal income tax credit	(160,000)	(1,159,000)
Income or (loss) before extraordinary items	343,000	(601,000)
Extraordinary items, credit or (charge), net of taxes	424,000	(239,000)
Net income or (loss)	767,000	(840,000)
Per share of common stock:		
Income or (loss) before extraordinary items	.11	(.19)
Extraordinary items, credit or (charge), net of taxes	.13	(.07)
Net income or (loss)	.24	(.26)
DIVIDENDS PER SHARE	—	.10
FINANCIAL		
Working funds*		
City Stores Company and Retail Subsidiaries	66,033,000	65,674,000
Working funds ratio	2.8	2.8
City Stores Company and Consolidated Subsidiaries	65,456,000	64,102,000
Working funds ratio	2.7	2.7
Accounts receivable—customers	76,309,000	77,994,000
Proceeds from financing of receivables	(42,020,000)	(45,441,000)
Inventories	51,063,000	49,519,000
Property and equipment—net		
City Stores Company and Retail Subsidiaries	51,381,000	46,625,000
City Stores Company and Consolidated Subsidiaries	71,512,000	67,186,000
Long term debt, other than mortgages not assumed		
City Stores Company and Retail Subsidiaries	28,138,000	25,314,000
City Stores Company and Consolidated Subsidiaries	41,345,000	39,319,000
Ownership		
Common stock equity	82,922,000	82,169,000
Common stock equity per share	25.41	25.18
Number of shares outstanding		
Common stock—at end of year	3,263,469	3,263,469

*Working funds consist of current assets less current liabilities exclusive of deferred tax credits principally applicable to installment sales.

**Includes the operations of Klines which was closed in October 1970.

To Our Stockholders:

Your Company operated at a profitable level in 1971 compared to a loss in 1970. While the profit level is modest, it represents a considerable improvement over the prior year. In addition, it was achieved in the face of lengthy strikes at two of our largest units.

Sales for the fiscal year ended January 29, 1972 totaled \$373,000,000, an increase of \$8,000,000 and 2.2% over sales for the year ended January 30, 1971 of \$365,000,000.

Income before taxes and extraordinary items was \$183,000 in fiscal 1971 compared to a loss of \$1,760,000 for 1970. After taxes and extraordinary items, net income was \$767,000 and 24¢ a share of common stock compared to a net loss of \$840,000 and 26¢ a share in 1970. Extraordinary items in 1971, arising principally from a gain on the sale of the Company's interest in the Philadelphia Credit Bureau, produced income of \$425,000. In 1970, extraordinary items resulted in a charge against income of \$239,000.

The improvement in operating results reflects a reduction in the rate of merchandise shortages, improved merchandise profit margins and lower interest charges. Expenses continued to rise, although at a somewhat slower rate after the imposition of governmental wage-price controls. This advantage will be wiped out if the proposed increase in the minimum wage is enacted by Congress. A higher minimum wage must result in significantly higher costs to the consumer and will, at this time, be a major blow to the efforts to fight inflation.

Profits and sales would have been substantially higher in 1971 but for an eight week long strike against W & J Sloane in New York City by Teamsters and a three week strike during the Christmas season against Lit's by the Retail Clerks. These strikes were the first major strikes in many years in the Company. While expensive in the short run, we believe the Company's decision to take the strikes was justified.

Financial Data

The financial condition of your Company continued sound. Working funds increased from \$64,102,000 to \$65,456,000 despite another year of major capital expenditures. Inventories, net of LIFO reserves, were \$51,063,000 compared to \$49,519,000 at

the end of 1970. Customer Accounts Receivable dipped from \$77,994,000 to \$76,309,000. The aging of delinquent accounts and the write-off of uncollectible customers' accounts remained within normal limits. Carrying charge income of \$9,380,000 was sufficient only to cover the direct expense of credit operations. As noted in previous reports, if interest is imputed to the investment in receivables, the credit operation produces a loss. The continuing political attacks on credit service charges reveal a lack of understanding of the economics of granting credit to consumers.

Capital expenditures were \$10,770,000 in 1971 compared to \$13,400,000 in 1970. In the past five years the Company has spent \$56,600,000 in improving and expanding its store operations. Capital expenditures in 1972 are estimated at \$6,000,000 as the peak of the expansion program is passed.

Stores

Construction has started in New Orleans for the Company's first mass merchandise furniture store and warehouse operation. This 120,000 square foot unit will offer the customer a wide selection of furniture, bedding and decorative accessories, which will be sold on either a cash-and-carry or full service basis and will be priced accordingly. The operation will combine the merchandise expertise already developed by W & J Sloane's highly successful Furniture Clearance Centers and the latest techniques in warehousing and mass merchandising presentation. A special staff is being recruited to administer this operation and to provide the basis for the additional units contemplated.

LIT'S is expanding its successful Lawrence Park store from 100,000 square feet to 150,000 square feet. The new space will be ready for a Fall 1972 opening. As part of its continuing program to eliminate loss operations, Lit's closed its Camden, New Jersey store on April 5, 1972. Any anticipated costs arising from this closing are already provided for by existing reserves. Lit's is continuing to plan for new locations in the Philadelphia metropolitan area.

MAISON BLANCHE has announced a 150,000 square foot store in the new Lake Forest Shopping Center east of New

Orleans. The Center will include two other department stores and is planned for opening in 1974. The store will replace the present freestanding unit in Gentilly Woods. Maison Blanche is also building a new warehouse for bulk merchandise, which will adjoin the new warehouse furniture store reported above.

The RICHARD'S division in Miami expanded its 163rd Street store from 120,000 square feet to 180,000 square feet and added a 400-car garage to the store, doubled the space of its Palm Springs store from 80,000 to 160,000 square feet, opened a 140,000 square foot store in the Hollywood Fashion Center and moved into a new warehouse of 190,000 square feet. Richard's is now set to exploit the continuing growth of the south Florida market.

LANSBURGH'S completed its 155,000 square foot store in the Rockville Mall, Maryland, which opened in February 1972, and broke ground for a 150,000 square foot store in the big Springfield Mall, Virginia. With these two new stores, Lansburgh's will be in an excellent position to serve most of the Washington, D. C. market.

LOWENSTEIN'S opened, in March 1972, its 60,000 square foot fashion store in the Raleigh Mall north of Memphis. This store also gives Lowenstein's representation in all the major Memphis markets.

LOVEMAN'S new 500-car garage adjoining its big downtown Birmingham store opened in October 1971. Loveman's is also finalizing plans for a 125,000 foot store on the east side of Birmingham. Loveman's new stores in Bessemer and on the west side of Birmingham showed satisfactory progress last year.

W & J SLOANE completed the purchase of its store property on Fifth Avenue, New York. The property had been held under long-term leases which would have expired in 1977. The purchase ensured the continuity of Sloane's on the country's most important shopping street. Sloane's also is adding new Furniture Clearance Center locations in New York City, Queens and Houston to the sixteen existing centers. The Furniture Clearance Centers are pioneers in the rapidly growing and highly profitable area of cash-and-carry furniture operations.

FRANKLIN SIMON replaced its old downtown Atlanta store this Fall with a new store

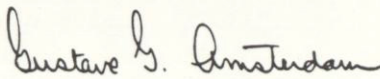
in the downtown Peachtree Center. It also opened new stores in Atlanta's Perimeter Mall and Northlake Shopping Centers. In 1972, Franklin Simon will open new stores in the Cherry Hill and Livingston Mall Shopping Centers in New Jersey, Raleigh Mall in Memphis and will replace its store in Harundale Shopping Center in Baltimore with a new one. The first three "Young Individualist" shops, which present a more limited assortment of merchandise in stores of only 2,500 square feet, have proven most successful and more will be added this year. Franklin Simon is continuing the policy of expanding within its existing trading areas so as to provide maximum concentration of supervision, advertising and support.

Personnel

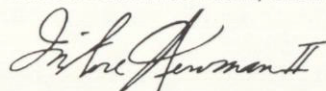
We are pleased to report that Mortimer L. Janis joined our Franklin Simon division in August as President. Mr. Janis brings to Franklin Simon a long career in fashion merchandising, most recently as Vice President and General Merchandise Manager of Soft Lines at the Hecht Company, Washington. J. P. Hansen, for the past eight years President of the Lit division, has been appointed Chairman of that division. He is succeeded as President and Chief Executive Officer by Morris Goldstein, previously Vice President and General Merchandise Manager of Soft Lines of the May Company, Los Angeles. Clifford D. Hoehne, presently President of Lowenstein's, will become President of Loveman's on May 1, 1972. He will continue as Chairman of Lowenstein's and will be succeeded as President and Chief Executive Officer by Louis P. Gorglione, who is now Merchandise Manager for Homefurnishings and Men's Wear at that store.

In conclusion, we expect that this year will show greater improvement with the continued support of our customers, our associates and our suppliers.

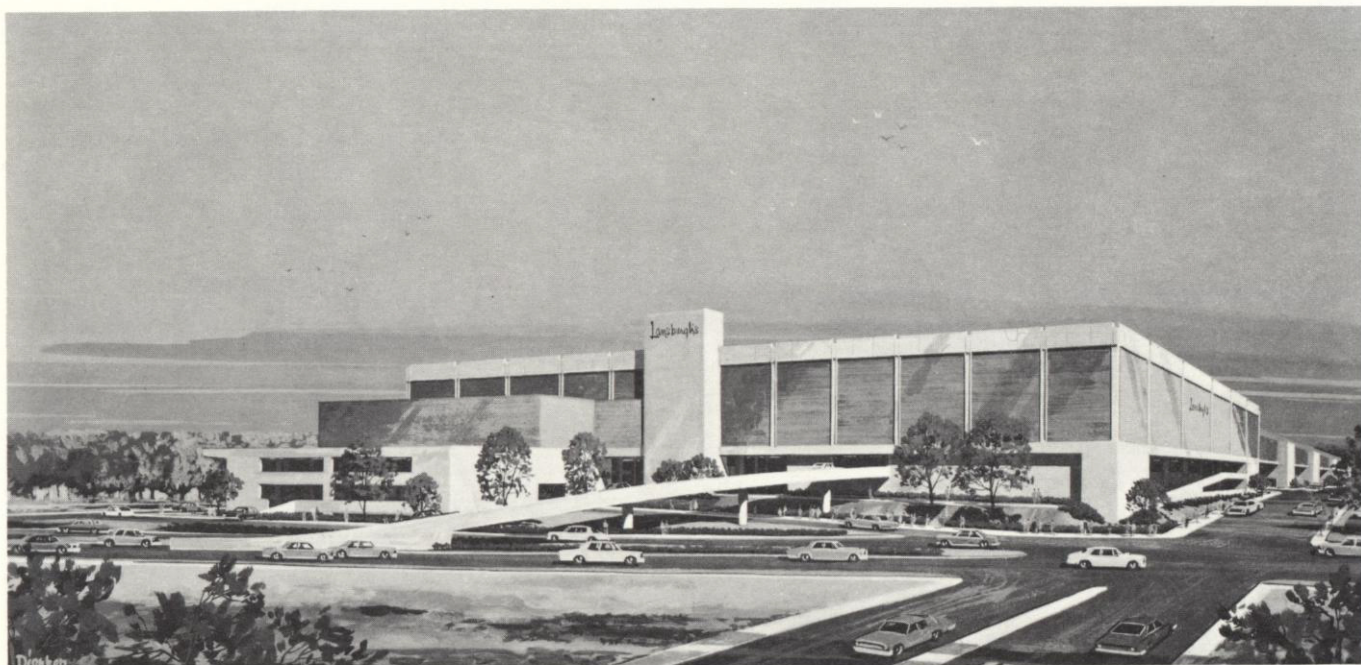
Respectfully submitted,



Gustave G. Amsterdam, *Chairman*



Isidore Newman, II, *President*



Lansburgh's newest 155,000 square foot department store opened February 14, 1972 in Rockville Mall, Rockville, Maryland.

Statement of Income

	52 Weeks Ended	
	January 29, 1972	January 30, 1971
Sales (including leased departments)	\$373,133,260	\$364,815,313
Deduct		
Cost of goods sold and operating expenses less carrying charges	362,388,767	355,857,776
Depreciation and amortization	5,874,543	5,700,666
Interest and debt expense	4,692,783	5,040,435
	<u>372,956,093</u>	<u>366,598,877</u>
	177,167	(1,783,564)
Other income—net	5,477	23,577
Income or (loss) before items shown below	<u>182,644</u>	<u>(1,759,987)</u>
Federal income taxes or (credit)—Note B		
Current	(510,000)	(1,300,000)
Deferred	350,000	141,000
	<u>(160,000)</u>	<u>(1,159,000)</u>
Income or (loss) before extraordinary items	342,644	(600,987)
Extraordinary items, credit or (charge), net of applicable federal income taxes—Note C	424,585	(238,767)
Net income or (loss)—Note J	<u>\$ 767,229</u>	<u>(\$ 839,754)</u>
Per share of common stock*:		
Income or (loss) before extraordinary items	\$.11	(\$.19)
Extraordinary items, credit or (charge), net of applicable federal income taxes	.13	(.07)
Net income or (loss)	<u>\$.24</u>	<u>(\$.26)</u>

*Based upon weighted average number of shares outstanding.

Statement of Income Reinvested in Business

Balance at beginning of year	\$ 43,935,967	\$ 45,102,072
Net income or (loss)	<u>767,229</u>	<u>(839,754)</u>
	44,703,196	44,262,318
Dividends, \$.10 per share	—	326,351
Balance at end of year—Note G	<u>\$ 44,703,196</u>	<u>\$ 43,935,967</u>

See notes to financial statements.

Statement of Financial Condition

	January 29, 1972	January 30, 1971
Assets		
CURRENT ASSETS		
Cash	\$ 9,102,082	\$ 9,823,214
Accounts receivable—Note D	39,015,710	38,281,327
Merchandise inventories—Note E	51,063,147	49,519,181
Supplies and prepaid expenses	3,651,778	3,801,525
TOTAL CURRENT ASSETS	102,832,717	101,425,247
INVESTMENTS AND OTHER ASSETS		
Investments and advances—Note A		
City Stores Credit Corporation	6,894,938	6,173,254
Real estate subsidiaries	6,175,199	4,941,161
Notes receivable	—	3,035,435
Sundry investments and other items	2,307,562	1,958,621
	<u>15,377,699</u>	<u>16,108,471</u>
PROPERTY AND EQUIPMENT—AT COST—Note F	90,389,457	84,986,089
Less accumulated depreciation and amortization	39,008,031	38,360,754
	<u>51,381,426</u>	<u>46,625,335</u>
	<u>\$169,591,842</u>	<u>\$164,159,053</u>
Liabilities		
CURRENT LIABILITIES		
Accounts payable, accrued and sundry liabilities	\$ 35,505,244	\$ 34,321,584
Current portion of long term debt and mortgages not assumed	1,264,265	1,409,752
Federal income taxes—current—Note B	29,459	19,760
Deferred tax credits, principally applicable to installment sales—Notes A and B	11,867,241	11,566,930
TOTAL CURRENT LIABILITIES	48,666,209	47,318,026
LONG TERM DEBT, other than mortgages not assumed—Note G	28,137,500	25,314,000
RESERVES—Note H	6,818,193	6,338,995
DEFERRED TAX CREDITS—Notes A and B	1,858,642	1,516,853
MORTGAGES NOT ASSUMED—Note F	776,263	1,064,028
DEFERRED CREDIT	412,702	438,247
OWNERSHIP—Notes G and I		
Preferred Stock—\$100 par value—Authorized 29,036 shares—none issued		
Common Stock—\$5 par value—Authorized		
6,000,000 shares; outstanding 3,263,469 shares for both years		
(after deducting 12,423 shares in treasury)	16,317,345	16,317,345
Other capital	21,901,792	21,915,592
Income reinvested in business	44,703,196	43,935,967
	<u>82,922,333</u>	<u>82,168,904</u>
Commitments, other comments and litigation—Notes D, J and K		
	<u>\$169,591,842</u>	<u>\$164,159,053</u>

See notes to financial statements.

Statement of Financial Condition

	January 29, 1972	January 30, 1971
Assets		
CURRENT ASSETS		
Cash	\$ 9,580,272	\$ 9,881,656
Accounts receivable—Note D	39,036,053	38,295,368
Merchandise inventories—Note E	51,063,147	49,519,181
Supplies and prepaid expenses	3,695,771	3,838,684
TOTAL CURRENT ASSETS	103,375,243	101,534,889
INVESTMENTS AND OTHER ASSETS		
Investments and advances—City Stores Credit Corporation—Note A	6,894,938	6,173,254
Notes receivable	—	3,035,435
Sundry investments and other items	2,408,383	2,140,275
	<u>9,303,321</u>	<u>11,348,964</u>
PROPERTY AND EQUIPMENT—AT COST—Note F	120,431,439	115,757,404
Less accumulated depreciation and amortization	48,919,442	48,570,928
	<u>71,511,997</u>	<u>67,186,476</u>
	<u>\$184,190,561</u>	<u>\$180,070,329</u>
Liabilities		
CURRENT LIABILITIES		
Accounts payable, accrued and sundry liabilities	\$ 35,699,766	\$ 34,688,748
Current portion of long term debt and mortgages not assumed	2,189,842	2,724,541
Federal income taxes—current—Note B	29,459	19,760
Deferred tax credits, principally applicable to installment sales—Notes A and B	11,867,241	11,566,930
TOTAL CURRENT LIABILITIES	49,786,308	48,999,979
LONG TERM DEBT, other than mortgages not assumed—Note G		
Parent company and retail subsidiaries	28,137,500	25,314,000
Real estate subsidiaries	13,207,303	14,005,406
	<u>41,344,803</u>	<u>39,319,406</u>
RESERVES—Note H	6,818,193	6,338,995
DEFERRED TAX CREDITS—Notes A and B	2,129,409	1,740,220
MORTGAGES NOT ASSUMED—Note F	776,263	1,064,028
DEFERRED CREDIT	413,252	438,797
OWNERSHIP—Notes G and I		
Preferred Stock—\$100 par value—Authorized 29,036 shares—none issued		
Common Stock—\$5 par value—Authorized		
6,000,000 shares; outstanding 3,263,469 shares for both years		
(after deducting 12,423 shares in treasury)	16,317,345	16,317,345
Other capital	21,901,792	21,915,592
Income reinvested in business	44,703,196	43,935,967
	<u>82,922,333</u>	<u>82,168,904</u>
Commitments, other comments and litigation—Notes D, J and K		
	<u>\$184,190,561</u>	<u>\$180,070,329</u>

See notes to financial statements

Statement of Changes in Financial Position

(Expressed in even thousands of dollars)

	City Stores Company and Retail Subsidiaries		City Stores Company and Consolidated Subsidiaries	
	52 Weeks Ended		52 Weeks Ended	
	January 29, 1972	January 30, 1971	January 29, 1972	January 30, 1971
Funds Provided:				
From operations:				
Income or (loss) before extraordinary items	\$ 343,000	(\$ 601,000)	\$ 343,000	(\$ 601,000)
Depreciation and amortization	5,050,000	4,966,000	5,875,000	5,701,000
Additions to pension reserve and other non current items	822,000	932,000	868,000	942,000
Total funds provided from operations	6,215,000	5,297,000	7,086,000	6,042,000
From extraordinary items	424,000	593,000	424,000	593,000
Decrease in long term notes receivable	3,035,000	1,520,000	3,035,000	1,520,000
Proceeds from new long term debt	3,800,000	225,000	4,080,000	3,561,000
Other, net	62,000	65,000	264,000	22,000
	<u>13,536,000</u>	<u>7,700,000</u>	<u>14,889,000</u>	<u>11,738,000</u>
Funds Applied:				
Additions to property and equipment	10,258,000	10,197,000	10,771,000	13,418,000
Retirement of long term debt and mortgages not assumed	1,264,000	1,477,000	2,342,000	2,805,000
Cash dividends paid	—	327,000	—	327,000
Increase or (decrease) in investments in and advances to unconsolidated subsidiaries	1,955,000	(225,000)	722,000	146,000
	<u>13,477,000</u>	<u>11,776,000</u>	<u>13,835,000</u>	<u>16,696,000</u>
Increase or (decrease) in working capital	59,000	(4,076,000)	1,054,000	(4,958,000)
Increase or (decrease) in current deferred tax credits, principally applicable to installment sales—Note A	300,000	(70,000)	300,000	(70,000)
Increase or (decrease) in working funds	\$ 359,000	(\$ 4,146,000)	\$ 1,354,000	(\$ 5,028,000)
Changes in Working Capital and Working Funds:				
Increase or (decrease) in current assets:				
Cash	(\$ 721,000)	\$ 220,000	(\$ 301,000)	\$ 122,000
Accounts receivable	734,000	(4,828,000)	740,000	(4,971,000)
Merchandise inventories	1,544,000	2,111,000	1,544,000	2,111,000
Supplies and prepaid expenses	(150,000)	(369,000)	(143,000)	(356,000)
	<u>1,407,000</u>	<u>(2,866,000)</u>	<u>1,840,000</u>	<u>(3,094,000)</u>
Less—increase or (decrease) in current liabilities:				
Accounts payable, accrued and sundry liabilities	1,184,000	491,000	1,011,000	666,000
Current portion of long term debt and mortgages not assumed	(146,000)	779,000	(535,000)	1,258,000
Federal income taxes—current	10,000	10,000	10,000	10,000
Deferred tax credits, principally applicable to installment sales	300,000	(70,000)	300,000	(70,000)
	<u>1,348,000</u>	<u>1,210,000</u>	<u>786,000</u>	<u>1,864,000</u>
Increase or (decrease) in working capital	59,000	(4,076,000)	1,054,000	(4,958,000)
Increase or (decrease) in current deferred tax credits, principally applicable to installment sales—Note A	300,000	(70,000)	300,000	(70,000)
Increase or (decrease) in working funds	\$ 359,000	(\$ 4,146,000)	\$ 1,354,000	(\$ 5,028,000)

See notes to financial statements.

Statement of Financial Condition—Note A

	January 29, 1972	January 30, 1971
Assets		
Cash	\$ 52,978	\$ 40,902
Customer receivables—assigned by City Stores Company and subsidiaries	46,688,953	50,490,484
Accrued interest receivable	15,268	12,198
	<u>\$46,757,199</u>	<u>\$50,543,584</u>
Liabilities		
Notes payable to banks	\$35,000,000	\$39,000,000
Accrued expenses	178,098	309,084
Due to City Stores Company	177,670	39,589
Amount (reserve) withheld pending collection of customer receivables	4,668,895	5,049,048
Ownership		
Common Stock—\$1,000 par value—Authorized 5,000 shares;		
outstanding 3,750 shares	3,750,000	3,750,000
Income reinvested in business	2,982,536	2,395,863
	<u>6,732,536</u>	<u>6,145,863</u>
Amount (reserve) withheld pending collection of customer receivables and ownership,* \$11,401,431 and \$11,194,911, respectively.		
	<u>\$46,757,199</u>	<u>\$50,543,584</u>

*In accordance with an agreement between City Stores Company and the lending banks, the notes payable to banks may be four times the sum of: (a) Subordinated debt, (b) Amount (reserve) withheld pending collection of customer receivables and (c) Ownership.

Statement of Income—Note A

	52 Weeks Ended	
	January 29, 1972	January 30, 1971
Interest income—from City Stores Company and subsidiaries	\$ 3,451,338	\$ 4,482,560
Interest expense	2,298,673	2,986,489
Other expenses	20,992	17,045
	<u>2,319,665</u>	<u>3,003,534</u>
Income before federal income taxes	1,131,673	1,479,026
Federal income taxes	545,000	725,000
Net income	<u>\$ 586,673</u>	<u>\$ 754,026</u>

Statement of Income Reinvested in Business—Note A

Balance at beginning of year	\$ 2,395,863	\$ 1,641,837
Net income	586,673	754,026
Balance at end of year	<u>\$ 2,982,536</u>	<u>\$ 2,395,863</u>

See notes to financial statements

Statement of Changes in Financial Position—Note A

	52 Weeks Ended	
	January 29, 1972	January 30, 1971
Funds Provided:		
Net income	\$ 586,673	\$ 754,026
Increase in notes payable to banks	—	5,500,000
Increase in accrued expenses	—	128,187
Increase in amount due to City Stores Company	138,081	—
Increase in amount (reserve) withheld pending collection of customer receivables	—	642,756
Decrease in customer receivables—assigned by City Stores Company and subsidiaries	3,801,531	—
Decrease in accrued interest receivable	—	35,883
Decrease or (increase) in cash	(12,076)	9,894
	<u>\$ 4,514,209</u>	<u>\$ 7,070,746</u>
Funds Applied:		
Increase in customer receivables—assigned by City Stores Company and subsidiaries	—	\$ 6,427,565
Increase in accrued interest receivable	\$ 3,070	—
Decrease in amount (reserve) withheld pending collection of customer receivables . . .	380,153	—
Decrease in notes payable to banks	4,000,000	—
Decrease in accrued expenses	130,986	—
Decrease in amount due to City Stores Company	—	643,181
	<u>\$ 4,514,209</u>	<u>\$ 7,070,746</u>

Real Estate Subsidiaries

Combined Summary of Net Assets—Note A

	January 29, 1972	January 30, 1971
Land, buildings, leaseholds and equipment, at cost, less accumulated depreciation	\$20,130,571	\$20,561,141
Mortgages payable—current portions \$925,577 and \$1,314,789, respectively	14,132,880	15,320,195
	<u>5,997,691</u>	<u>5,240,946</u>
Other assets or (liabilities)—net	177,508	(299,785)
Net assets consisting of intercompany accounts and ownership	<u>\$ 6,175,199</u>	<u>\$ 4,941,161</u>

See notes to financial statements.

Notes to Financial Statements

A—SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are as follows:

PRINCIPLES OF CONSOLIDATION — The accompanying consolidated Statement of Financial Condition of City Stores Company and consolidated subsidiaries includes all active subsidiaries other than City Stores Credit Corporation. The consolidated Statement of Financial Condition of City Stores Company and Retail Subsidiaries includes all active subsidiaries other than real estate subsidiaries and City Stores Credit Corporation. The investment in subsidiaries not consolidated in such financial statements are carried at amounts equal to their net assets. The accounts of City Stores Credit Corporation and all active real estate subsidiaries are included in the consolidated statement of income. Financial statements of the credit company and a summary of the net assets of the real estate subsidiaries are also presented.

Material intercompany items have been eliminated in the preparation of these statements.

ACCOUNTS RECEIVABLE — Accounts receivable installments maturing in more than one year have been included in current assets in accordance with trade practice; it is not practicable to determine the amount of such installments.

MERCHANDISE INVENTORIES — Merchandise inventories are determined principally under the retail method and are priced partly at LIFO cost and partly at the lower of cost or market.

PROPERTY AND EQUIPMENT — Expenditures for renewals and betterments representing improvements to property and equipment are capitalized. Expenditures for maintenance and repairs are charged to income as incurred.

At the time store fixtures and equipment become fully depreciated or amortized, or at the time properties are sold or otherwise disposed of, it is the policy generally to eliminate from the accounts the cost thereof and the related accumulated depreciation or amortization. Any gain or loss on disposal is usually credited or charged to income.

Depreciation and amortization for financial accounting purposes have been computed on a straight-line basis principally over the estimated useful lives of the assets.

FEDERAL INCOME TAXES—The Company and its subsidiaries file consolidated federal income tax returns; subsidiaries are charged or credited an amount equal to the tax that would have been applicable on a separate return basis.

The Company records income from installment sales for financial accounting purposes at the time sales are made and for tax purposes on the basis of cash collections and deducts depreciation for tax purposes in different time periods from those in which it is recorded for financial

accounting purposes. Accumulated tax effects resulting from recognizing these and other timing differences which are shown in the accompanying statements of financial condition as deferred tax credits, are not liabilities and in the normal course of business may never be paid because the Company believes that at its present rate of growth tax deferrals will continue to increase.

The investment tax credit, to the extent allowable, is applied as a reduction of the provision for income taxes.

PENSION PLANS—Under the Company's pension plans, which are unfunded, annual amounts are provided, on the accrual basis, based on actuarial estimates of current service costs, amortization of prior service costs over thirty years and interest.

B—FEDERAL INCOME TAXES

This year's provision for federal income taxes and taxes on extraordinary items have been reduced by investment tax credits of approximately \$200,000 and \$75,000, respectively. The foregoing includes approximately \$170,000 resulting from carryback of investment tax credit to prior years.

Last year's credit for federal income taxes represents refundable taxes resulting from the carryback of last year's net operating loss and investment tax credit (\$386,000) to prior years.

The Internal Revenue Service has proposed additional federal income tax assessments for the years 1959 through 1968, relating principally to the deferral of gross profit on installment sales. The Company intends to protest these assessments. If a deficiency of taxes is finally determined, it will be substantially covered by amounts provided in the financial statements.

C—EXTRAORDINARY ITEMS

Extraordinary items, credit or (charge), consist of the following:

	<u>This Year</u>	<u>Last Year</u>
Gain on sale of investment in retail credit bureau, after federal income tax of \$59,000 and \$358,000, respectively	\$333,653	\$382,025
Gain on sale of fixed assets in closed branch unit, after federal income tax of \$16,000	90,932	—
Loss from discontinued operations, after federal income tax benefit of \$485,000	—	(582,984)
Loss from the sale of two divisions after federal income tax benefits of \$35,000	—	(37,808)
	<u>\$424,585</u>	<u>(\$238,767)</u>

Last year's loss from discontinued operations represented costs and expenses incurred or expected to be incurred in connection with the closing in October 1970 of the Kline's division and a Franklin Simon, Buffalo, New York, store.

Notes to Financial Statements

D—ACCOUNTS RECEIVABLE

The accounts receivable are summarized as follows:

	This Year	Last Year
Accounts Receivable:		
Customers — net of reserve of \$2,308,558 and \$2,445,980, respectively	\$76,309,158	\$77,993,659
Current portion of notes receivable	1,467,850	1,519,579
Federal income taxes	490,000	1,376,968
Other—net of reserves of \$97,001 and \$103,317, respectively ..	2,768,760	2,832,557
	<u>81,035,768</u>	<u>83,722,763</u>
Less:		
Customers accounts receivable assigned to City Stores Credit Corporation—net of equity of \$4,668,895 and \$5,049,048, respectively	42,020,058	45,441,436
City Stores Company and Retail Subsidiaries	39,015,710	38,281,327
Real Estate Subsidiaries — other receivables	20,343	14,041
City Stores Company and consolidated subsidiaries	<u>\$39,036,053</u>	<u>\$38,295,368</u>

Accounts receivable from customers include installment accounts of approximately \$73,200,000 and \$74,000,000, respectively.

The Company has an agreement with City Stores Credit Corporation under which customers accounts receivable are assigned to the credit company and the credit company remits amounts equal to 90% of the accounts assigned, withholding 10% of the uncollected balances representing the Company's equity. Under the agreement, the Company accepts reassignment of any accounts in default (as defined) as long as it continues to assign accounts.

E—MERCHANDISE INVENTORIES

Merchandise inventories are summarized as follows:

	This Year	Last Year
At LIFO cost	\$30,204,394	\$29,909,225
At lower of cost or market	21,515,864	20,290,540
	<u>51,720,258</u>	<u>50,199,765</u>
Less allowance for discounts applicable to LIFO inventories ...	657,111	680,584
	<u>\$51,063,147</u>	<u>\$49,519,181</u>

The inventories priced at LIFO cost would be approximately \$7,900,000 more this year and \$7,600,000 more last year if they had been priced at the lower of cost or market.

Amounts of opening and closing inventories (before discounts applicable to inventories priced at LIFO cost) used in the computation of cost of goods sold were as follows:

Opening inventories	\$50,199,765	\$48,132,047
Closing inventories	\$51,720,258	\$50,199,765

F—PROPERTY AND EQUIPMENT

Property and equipment are summarized by major classifications, as follows:

City Stores Company and Retail Subsidiaries:	This Year	Last Year
Land	\$ 6,992,674	\$ 3,952,923
Buildings and building improvements	16,456,407	14,303,732
Leasehold costs and improvements	26,808,429	27,201,410
Store fixtures and equipment ..	37,718,876	38,435,038
Improvements in progress	2,413,071	1,092,986
Total	<u>90,389,457</u>	<u>84,986,089</u>
Less accumulated depreciation and amortization	39,008,031	38,360,754
	<u>\$ 51,381,426</u>	<u>\$ 46,625,335</u>
City Stores Company and consolidated subsidiaries:	This Year	Last Year
Land	\$ 15,768,839	\$ 12,395,773
Buildings and building improvements	34,874,475	33,080,928
Leasehold costs and improvements	27,251,623	27,744,604
Store fixtures and equipment ..	40,087,431	41,443,113
Improvements in progress	2,449,071	1,092,986
Total	<u>120,431,439</u>	<u>115,757,404</u>
Less accumulated depreciation and amortization	48,919,442	48,570,928
	<u>\$ 71,511,997</u>	<u>\$ 67,186,476</u>

At January 29, 1972, property and equipment includes real estate, principally store properties, in the net amount of approximately \$1,739,000 subject to mortgages not assumed amounting to approximately \$1,064,000. The Company is not liable on the mortgage notes. Two liquidated real estate subsidiaries remain liable on the mortgages.

G—LONG TERM DEBT (other than mortgages not assumed)

Long term debt (other than mortgages not assumed) are summarized as follows:

	This Year	Last Year
6½% notes to insurance company payable in installments to 1987	\$23,400,000	\$24,200,000
9% mortgage payable in 1976 ...	3,800,000	—
Notes to insurance companies and others, principally at interest rates of 5% and 6%, payable in installments to 1978	937,500	1,114,000
City Stores Company and Retail Subsidiaries	28,137,500	25,314,000
Mortgages, payable (by real estate subsidiaries) principally at interest rates ranging from 4¼% to 9½%—due in varying annual amounts to 1991	13,207,303	14,005,406
City Stores Company and consolidated subsidiaries	<u>\$41,344,803</u>	<u>\$39,319,406</u>

Annual maturities of the notes payable, excluding mortgages, aggregate \$976,500 from 1972 to 1975 and range from \$1,926,500 in 1976 to \$1,750,000 in 1987.

Underlying loan agreements with respect to notes payable provide, among other things, for (1) the maintenance of minimum consolidated working capital, (2) restrictions on the purchase, redemption or other acquisition of the Company's common stock, and (3) restrictions on the payment of cash dividends on the Company's common stock (approximately \$2,150,000 is available for the payment of dividends as at January 29, 1972).

H—RESERVES

Reserves, excluding current portions, have been provided for the following:

	This Year	Last Year
Pensions	\$3,355,482	\$2,518,142
Deferred compensation	1,774,872	1,804,206
Real estate dispositions	1,370,995	1,370,995
Termination of store operations and other	316,844	645,652
	<u>\$6,818,193</u>	<u>\$6,338,995</u>

I—STOCK OPTIONS AND OTHER CAPITAL

Under the Company's 1969 Stock Option Plan, options may be granted to selected key executives to purchase a maximum of 100,000 shares of the Company's common stock at the market price at date of grant. Under the Company's 1960 Stock Option Plan no additional options may be granted. This plan, which had substantially the same provisions as the 1969 plan, was terminated in 1970. Prior to 1964, options were granted at 95% of the market price at the date of grant. Options are exercisable over a ten-year or five-year period. At January 29, 1972, options for 17,750 shares were exercisable and options to purchase 81,100 shares were available for grant.

Transactions under the two plans are summarized as follows:

	1969 Plan		1960 Plan	
	This Year	Last Year	This Year	Last Year
Shares under option—beginning of year ...	9,250	11,000	33,450	53,300
Options granted at \$7.625 to \$10.375 per share this year and at \$7.88 to \$9.75 per share last year	11,400	3,250	—	—
Options cancelled	(1,750)	(5,000)	(4,000)	(5,750)
Options expired	—	—	(13,550)	(14,100)
Shares under option—end of year at \$7.625 to \$22.25 per share	<u>18,900</u>	<u>9,250</u>	<u>15,900</u>	<u>33,450</u>

No options were exercised in either year.

Other capital has been charged \$13,800 this year representing the cost of registering certain shares of the Company common stock.

J—COMMITMENTS AND OTHER COMMENTS

The Company's non-contributory pension plans (as amended) cover, generally, employees with fifteen years of service who are not participants in any other plan to which the Company contributes. The plans provide for retirement, generally at age 65, with no vesting of benefits. Although the Company does not presently contemplate funding these plans, it may do so in the future. The Company may amend, modify or terminate the plans in whole or in part at any time.

The amounts charged to income for pensions were approximately \$1,700,000 this year and \$1,600,000 last year. Under the plans there is no vesting, but if there were vesting, the actuarially computed value of vested benefits for retired employees and those who are eligible for retirement, as this term is defined in Opinion 8 of the Accounting Principles Board of the American Institute of Certified Public Accountants, would amount to approximately \$10,300,000 as at January 29, 1972.

The minimum annual rentals on real property leased by the Company and its consolidated subsidiaries under leases with an original term of more than three years as at January 29, 1972 (excluding amounts applicable to stores not yet opened) amount to approximately \$11,250,000 (including \$260,000 with its parent, Bankers Securities Corporation)—exclusive of approximately \$2,100,000 (eliminated in consolidation) under leases with real estate subsidiaries which generally secure mortgages on property owned by such subsidiaries.

Costs and expenses include the following:

	This Year	Last Year
Cost of goods sold, buying and occupancy expenses	\$270,057,943	\$265,664,805
Selling, general and administrative expenses (less carrying charges) and provision for doubtful accounts—customers	\$ 92,330,824	\$ 90,192,971

Selling, general and administrative expenses are net of carrying charges on customer receivables. The cost of administering the retail credit program, including bad debts incurred and interest (assuming that all borrowed funds are used to finance receivables) exceeded the carrying charges on customer receivables as follows:

	This Year	Last Year
Cost of credit program	\$12,680,000	\$12,960,000
Carrying charge income	9,380,000	9,226,000
	<u>\$3,300,000</u>	<u>\$ 3,734,000</u>

The above data do not reflect other indirect costs related to the credit program or any allocation for corporate overhead expense.

Last year's loss before extraordinary items includes the operating loss of a division discontinued during that year of \$177,858 (\$.05 per share) after federal income tax benefit of \$165,000. Sales of such discontinued division were \$2,900,022.

K—LITIGATION

The Federal District Court, on October 6, 1971, in a suit brought by the U.S. Department of Labor involving the Company's Loveman's branch store in Montgomery, Alabama, found that women sales personnel selling women's and children's and related items of merchandise are entitled to the same rate of compensation as men selling men's clothing in said store. The ruling covers the period from October 1967 to the present and enjoined the Company from engaging in such practices in said store in the future and ordered the payment of back wages under a certain formula for the women involved. The Company is appealing the findings of the Court. The Company is unable at this time to compute with any reasonable accuracy the amount of such back wages to be paid in the event it is unsuccessful in its appeal, but in the opinion of management, such amount will have no material adverse effect on the Company's fi-

nancial condition or business. The Company also is unable at this time to estimate the effect of this ruling on its future operations.

Lawsuits, which purport to be class actions, have been instituted against major retailers, including the Company's Richard's Division and its W. & J. Sloane subsidiary, questioning the legality of certain credit and billing practices. The relief sought includes refund of alleged excessive finance charges, costs of suit and attorney fees as well as injunctive relief against future alleged excess charges. In addition, the Attorney General of New York has instituted a proceeding against W. & J. Sloane for the same relief claimed in the above class actions. In the opinion of counsel, there is no merit in these lawsuits. The ultimate disposition of these actions is not presently determinable but will not, in the opinion of the management of the Company, have a material adverse effect on the business or the financial position of the Company.

In the opinion of the Company, other claims and litigation asserted against the Company, would have no material adverse effect on the accompanying financial statements.

Accountants' Report

S. D. LEIDESDORF & CO.
Certified Public Accountants
New York, N. Y.

To the Board of Directors
City Stores Company
New York, N. Y.

We have examined the financial statements of City Stores Company ("Company") and subsidiaries (see Note A) as follows:

1. Statements of Financial Condition as at January 29, 1972 and January 30, 1971: Company and consolidated subsidiaries; Company and Retail Subsidiaries; and City Stores Credit Corporation,
2. Statements of Income and of Income Reinvested in Business for the fiscal years (52 weeks) ended January 29, 1972 and January 30, 1971: Company and consolidated subsidiaries; and City Stores Credit Corporation,
3. Statements of Changes in Financial Position for the fiscal years (52 weeks) ended January 29, 1972 and January 30, 1971: Company and consolidated subsidiaries; Company and Retail Subsidiaries; and City Stores Credit Corporation, and
4. Combined Summaries of Net Assets of unconsolidated real estate subsidiaries as at January 29, 1972 and January 30, 1971.

Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly (1) the financial position of the Company and consolidated subsidiaries, of the Company and Retail Subsidiaries and of City Stores Credit Corporation at January 29, 1972 and January 30, 1971 and changes in their financial position for the fiscal years (52 weeks) then ended, and the results of operations of the Company and consolidated subsidiaries and of City Stores Credit Corporation for the fiscal years (52 weeks) then ended and (2) the combined net assets of the unconsolidated real estate subsidiaries at January 29, 1972 and January 30, 1971, in conformity with generally accepted accounting principles applied on a consistent basis.

S. D. Leidesdorf & Co.

New York, N.Y.
April 5, 1972

Historical Comparison

	January 29, 1972	January 30, 1971†	January 31, 1970†	February 1, 1969†	February ,3 1968†*
Operations					
Sales	\$373,133,000	\$364,815,000	\$380,384,000	\$373,742,000	\$372,109,000
Index of sales	100	98	102	100	100
Income or (loss) before items shown below	183,000	(1,760,000)	6,567,000	7,504,000	7,932,000
Federal income taxes or (credit)	(160,000)	(1,159,000)	3,000,000	3,835,000	3,108,000
Income or (loss) before extraordinary items	343,000	(601,000)	3,567,000	3,669,000	4,824,000
Extraordinary items, credit or (charge), net of taxes	424,000	(239,000)	(852,000)	—	—
Net income or (loss)	767,000	(840,000)	2,715,000	3,669,000	4,824,000
Per share of common stock:					
Income or (loss) before extraordinary items	.11	(.19)	1.14	1.23	1.62
Extraordinary items, credit or (charge), net of taxes	.13	(.07)	(.28)	—	—
Net income or (loss)	.24	(.26)	.86	1.23	1.62
Dividends					
Common stock	—	326,351	1,232,784	300,451	742,915
Per share	—	.10	.40	.10	.25
Financial					
Working funds**					
City Stores Company and Retail Subsidiaries	66,033,000	65,674,000	69,820,000	77,934,000	65,750,000
Working funds ratio	2.8	2.8	3.0	3.1	2.8
City Stores Company and Consolidated Subsidiaries	65,456,000	64,102,000	69,130,000	77,384,000	64,896,000
Working funds ratio	2.7	2.7	2.9	3.0	2.7
Accounts receivable—customers	76,309,000	77,994,000	79,793,000	79,790,000	78,147,000
Proceeds from financing of receivables	(42,020,000)	(45,441,000)	(39,657,000)	(27,539,000)	(41,760,000)
Inventories	51,063,000	49,519,000	47,408,000	47,154,000	46,240,000
Property and equipment—net					
City Stores Company and Retail Subsidiaries	51,381,000	46,625,000	42,030,000	37,729,000	35,692,000
City Stores Company and Consolidated Subsidiaries	71,512,000	67,186,000	60,105,000	58,990,000	57,134,000
Long term debt, other than mortgages not assumed					
City Stores Company and Retail Subsidiaries	28,138,000	25,314,000	26,133,000	26,347,000	16,561,000
City Stores Company and Consolidated Subsidiaries	41,345,000	39,319,000	38,129,000	42,089,000	32,901,000
Ownership					
Common stock equity	82,922,000	82,169,000	83,335,000	79,099,000	75,419,000
Common stock equity per share	25.41	25.18	25.54	26.33	25.36
Number of common shares outstanding					
Average during year	3,263,469	3,263,469	3,141,953	2,976,933	2,969,767
At end of year	3,263,469	3,263,469	3,263,469	3,004,413	2,973,613

*53 Weeks

†Includes the operations of divisions sold or discontinued (Wolf & Dessauer and Kaufman Straus sold in November 1969; Klines closed in October 1970).

**Working funds consist of current assets less current liabilities, exclusive of deferred tax credits principally applicable to installment sales.

Department Stores

Lit Brothers

J. P. Hansen,
Chairman of the Board
Morris Goldstein, President*

PENNSYLVANIA:

Philadelphia†
69th Street
Northeast Philadelphia
Oregon Avenue
Lawrence Park
Morrisville
Willow Grove
Plymouth Meeting
Reading

NEW JERSEY:

Atlantic City
Echelon

Maison Blanche

Isidore Newman, II
Chairman of the Board
Robert I. Sonfield, President*

LOUISIANA:

New Orleans†
Carrollton
Gentilly
Airline Highway
West Side
Gentilly Woods
Clearview

Richards

Paul S. Walker, President

FLORIDA:

Miami†
163rd Street
Cutler Ridge
Palm Springs
Fort Lauderdale
West Palm Beach
Midway Center
Hollywood

Lansburgh's

George T. Joint, President

DISTRICT OF COLUMBIA:

Washington†

MARYLAND:

Langley Park
Rockville

VIRGINIA:

Shirlington
Tyson's Corner
Springfield**

Loveman's

Clifford D. Hoehne, President

ALABAMA:

Birmingham†
Montgomery
Huntsville
Western Hills Mall
West Lake Mall

Lowenstein's

Clifford D. Hoehne,
Chairman of the Board
Louis P. Gorglione, President*

TENNESSEE:

Memphis†
East
South
Raleigh

Hearn's

Gwilynn R. Thomas, President

NEW YORK:

Bronx

R. H. White

Harold A. Broomfield, President

MASSACHUSETTS:

Worcester
Leominster

Specialty Stores

Franklin Simon

Mortimer L. Janis, President

CONNECTICUT:

Milford
Westport
Stamford

DISTRICT OF COLUMBIA:

Washington

GEORGIA:

Lenox Square
Greenbriar
South De Kalb
Atlanta
Northlake Mall
Perimeter Mall

MARYLAND:

Harundale
Mondawmin

Towson

Wheaton
Prince Georges
Montgomery Mall

MASSACHUSETTS:

Boston
Natick
Braintree
Burlington

MICHIGAN:

Detroit
Northland
Eastland
Westland
Oakland Mall
Southland

MISSOURI:

St. Louis-Crestwood
and Northwest Plaza

NEW JERSEY:

East Orange
Eatontown
Hackensack
Haddonfield
Menlo Park
Morristown
Paramus
Wayne
Cherry Hill**
Livingston**

NEW YORK:

New York City†
Yonkers
Hicksville
Manhasset
Roosevelt Field
Valley Stream
New Rochelle
Thruway Plaza
Nanuet

NORTH CAROLINA:

Charlotte
South Park

OHIO:

Cleveland
Swifton
Richmond Mall
Parmatown
Tri-County

PENNSYLVANIA:

Philadelphia
Germantown
Willow Grove
Plymouth Meeting

TENNESSEE:

Memphis
Southland
Raleigh**

VIRGINIA:

Seven Corners

Home Furnishings Stores

W. & J. Sloane

Leonard J. Novogrod, President

CALIFORNIA:

San Francisco†
Los Altos
Walnut Creek
San Jose
San Mateo†
Northgate
Bayshore†

CONNECTICUT:

Milford†
Stamford
Stamford†
Westport†
Hartford
Hamden†

DISTRICT OF COLUMBIA:

Washington†
Washington†

GEORGIA:

Atlanta—Phipps Plaza
Atlanta—Sandy Springs†

MARYLAND:

Bethesda

NEW JERSEY:

Milburn†
Ridgewood†
Union†
Paramus
Flagship†
Red Bank
Short Hills

NEW YORK:

New York City†
Forest Hills†
Garden City
Hempstead†
Manhasset
Riverdale†
White Plains
White Plains†
Hauppauge†
New York City†**

PENNSYLVANIA:

Jenkintown

TEXAS:

Houston—Galleria
Houston—Town & Country†**

VIRGINIA:

Seven Corners
Shirlington†
Alexandria

City Stores Company

Operating a total of 141 stores—

43 department stores

59 specialty stores

39 home furnishings stores—
in 18 states and the District of
Columbia.

* Chief executive officer

† Main downtown store

‡ Clearance Centers

** In Construction

Directors

Gustave G. Amsterdam*
Murry C. Becker*
John R. Bunting, Jr.*
Bruce H. Greenfield
J. P. Hansen
Joseph A. W. Iglehart
Louis G. Melchior*
Isidore Newman, II*
Leonard J. Novogrod
Thomas C. Pillion
Max Robb*
Serge Semenenko*
Paul S. Walker

*Member of Executive Committee

Officers

Gustave G. Amsterdam
Chairman of the Board
Isidore Newman, II
President
Louis G. Melchior
*Executive Vice President
and Treasurer*
J. P. Hansen
Vice President
Clifford D. Hoehne
Vice President
A. Alfred Landisi
Senior Vice President
Leonard J. Novogrod
Vice President
Robert I. Sonfield
Vice President
Paul S. Walker
Vice President
Irving J. Zipin
Secretary and General Counsel
J. Karl Fishbach
*Corporate Controller
and Assistant Treasurer*
Daniel Mandel
Assistant Secretary

City Stores Company

Corporation Office:

500 Fifth Avenue
New York, N. Y. 10036

New York Buying Office:

Mutual Buying Syndicate, Inc.
11 West 42nd Street
New York, N. Y. 10036

Annual Meeting

Wednesday, May 24, 1972
11:30 A.M. (E.D.S.T.)
Biltmore Hotel, Madison Avenue
at 43rd Street
New York, New York
Biltmore Suite

Corporate Data

Transfer Agent

The Chase Manhattan Bank
One Chase Manhattan Plaza
New York, N. Y. 10015

Co-Transfer Agent

The First Pennsylvania Banking
& Trust Company
15th & Chestnut Streets
Philadelphia, Pa. 19101

Registrar

Chemical Bank
20 Pine Street
New York, N. Y. 10015

Counsel

Goodis, Greenfield, Henry,
Shaiman & Levin
1315 Walnut Street
Philadelphia, Pa. 19107

Auditors

S. D. Leidesdorf & Co.
125 Park Avenue
New York, N. Y. 10017

R.H. WHITE'S

Richards

FRANKLIN & SIMON

Lansburgh's



LIT BROTHERS

L

Lowenstein's

maison blanche

Hearn's

*L*OVEMAN'S